



MAYOR AND COUNCIL WORKSESSION

NO. DEPT.: City Manager's Office / Finance
CONTACT: Catherine Tuck Parrish

DATE: September 29, 2004

SUBJECT FOR DISCUSSION: Preliminary guidance on the FY 2006 budget and presentation of the FY 2004 Fourth Quarter Report.

ORDER OF DISCUSSION:

1. Background for FY 2006 Budget.
2. FY 2004 Fourth Quarter Report.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED:

1. This memo and the presentation on October 4th should provide the Mayor and Council with the information necessary to set broad guidelines for the FY06 budget. Specifically, guidance is sought on whether a reduction in the property tax rate should be included in the budget.

SUMMARY

This memo and the presentation examine the increases in property tax bills and analyzes the condition of the General Fund in light of the Mayor and Council's interest in exploring a tax rate reduction. Such a reduction would most likely necessitate service cuts. The option of expanding the Homeowner's Tax Credit is offered as a means of targeted tax reduction.

DISCUSSION

Many Rockville homeowners are experiencing annual increases of ten percent in their property tax bills. This is the result of rapidly escalating residential real estate values, not only in the City of Rockville, but throughout the Washington metropolitan area. While most assessments are well below the actual market value of properties, this may not comfort the homeowner who sees the property tax bill taking a larger share of household income each year. Seven years of ten percent increases result in a doubling of the tax bill.

Every individual homeowner's situation is different, but aggregate data from the State Department of Assessments and Taxation (SDAT) as well as analysis of City tax bills suggest that many Rockville homeowners experienced their first ten percent tax increase with the bills that were mailed out in July 2003. Next year's bills, then, will mark the third consecutive year of ten percent increases in many cases. Next year also marks the beginning of a new assessment cycle for many Rockville properties, and by the end of calendar 2005, staff will know whether most homeowners will face an additional three years of significant increases, beginning in July 2006.

The Mayor and Council have expressed their interest in considering a reduction in the City's property tax rate as a means of addressing the issue of rising tax bills. A couple of examples may help to give a sense of what a rate reduction would mean for homeowners. For every penny that the rate is reduced, Rockville homeowners would save \$10 per \$100,000 of assessed value. The tax bill on a \$300,000 home would be cut about three percent, from \$966 to \$936. A ten percent rate reduction (by 3.22 cents) would result in an \$869 tax bill.

Obviously, a reduction in the property tax rate would not only provide tax relief, but also reduce the resources available to support City services. In FY06, it is expected that every penny on the property tax rate will yield about \$850,000 in General Fund revenue. A ten percent drop in the tax rate would cut revenues by \$2.7 million.

Rockville will not have the resources to offer a significant tax cut while maintaining the current level of services. This is based on current revenue and spending trends, the City's commitment to the Town Square project, and the need for future capital projects. Over the past several years, General Fund revenues have increased by an average of about two million dollars each year. This additional revenue mainly covers increases in personnel costs, including merit increases, rising health care insurance and retirement costs, new hires, and cost-of-living allowances (COLAs). In addition, several small budget increases are approved each year on a case-by-case basis. Non-personnel operating budgets are generally held constant each year unless the Mayor and Council or the City Manager grants approval for a specific increase.

To provide for the needed increases and for contingency funds, departments made cuts to their FY04 and FY05 budgets. Departments reduced their FY04 budgets by a total of nearly \$900,000 from their FY03 levels, and FY05 budgets were cut by \$500,000 from their FY04 levels. Reductions were made to areas such as travel, program supplies, consultant fees, temporary employees, and professional development.

The City of Rockville's commitments to maintain an adequate Capital Improvements Program (CIP) and build Town Square will limit the funding available to support regular operations. In FY04, the General Fund transferred \$4.4 million to cover CIP and debt costs. In FY05, the figure is expected to be \$5.0 million, and it will grow to \$7.2 million by FY10. This equates to average increases of \$400,000 each year, a substantial portion of the two to three million dollars in annual General Fund growth that can be expected in coming years based on recent experience.

Making projections based on past experience has some pitfalls. First, the development of King Farm, Falls Grove, Town Square, and, possibly, Twinbrook Commons will add significantly to the City's tax base and result in increased General Fund revenues in coming years. Most growth in King Farm and Falls Grove has already been accounted for in current and prior year revenue figures, but development in coming years could create greater rates of increases in annual revenue. In addition, income tax receipts have been stagnant for the past few years, and it would not be unreasonable to expect some future growth.

Nonetheless, given the high probability that the City cannot cut its property tax rate and maintain all services at their current levels, the Mayor and Council might consider a more targeted, less costly alternative to a blanket rate reduction – supplementing the Homeowner's Tax Credit. The Homeowner's Tax Credit is a State funded program that reduces the property taxes due on the first \$150,000 of a property's assessed value. The amount of the credit varies with household annual income and phases out at about \$30,000. Montgomery County and Takoma Park already supplement the State program, meaning that qualifying households in these areas receive a larger

property tax credit than they would in other areas where the State program is not supplemented.

2. FY 2004 FOURTH QUARTER REPORT: The Mayor and Council received a preliminary version of the report about two weeks ago. The attached report includes the final actual FY04 data, but these numbers are subject to change due to decisions by the outside auditors. They should be completed with their work in November.

LIST OF ATTACHMENTS:

Presentation Highlights

Financial Report on FY 2004 Operations

PRESENTATION HIGHLIGHTS

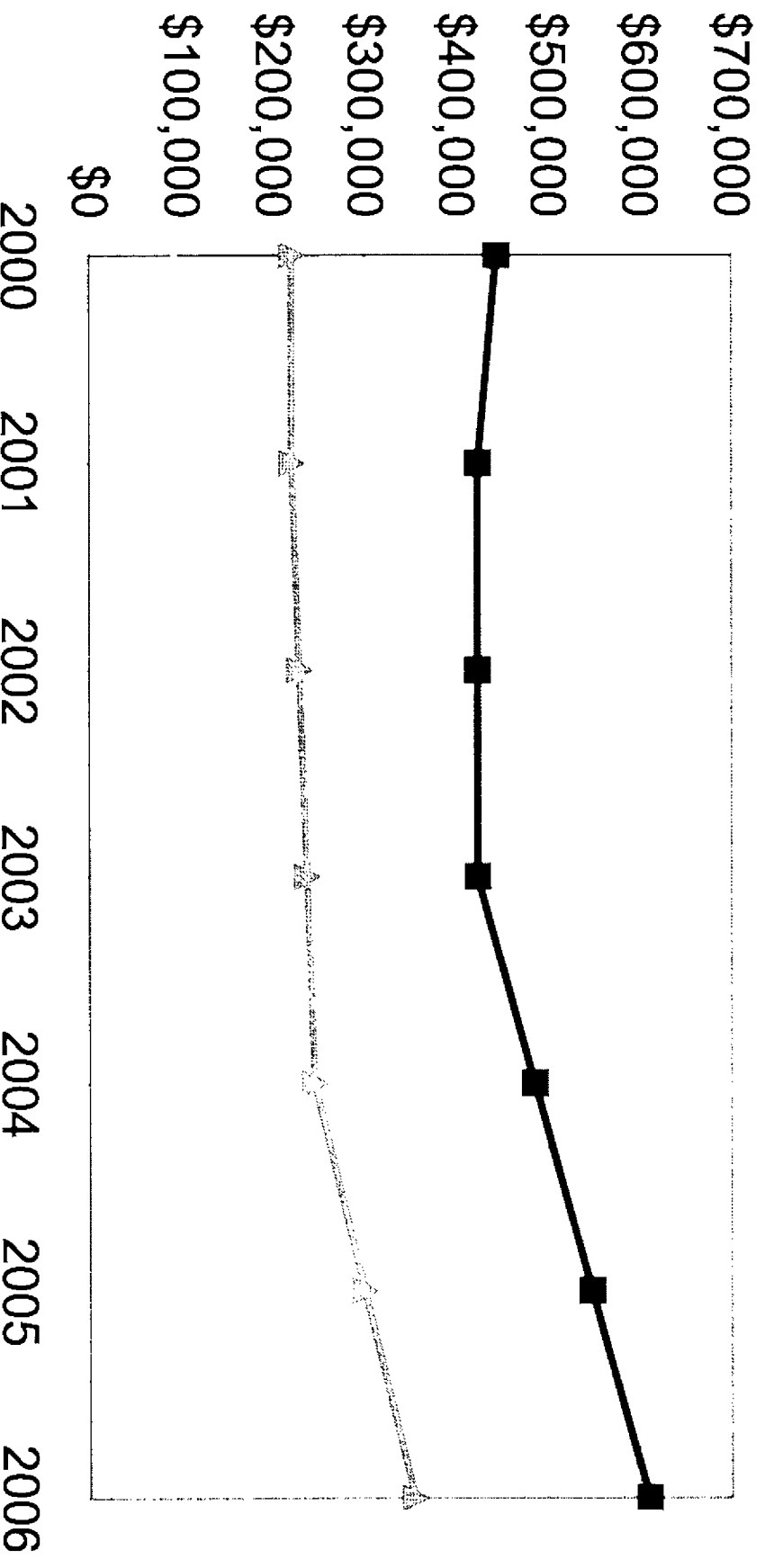


FY2006 Budget Worksession

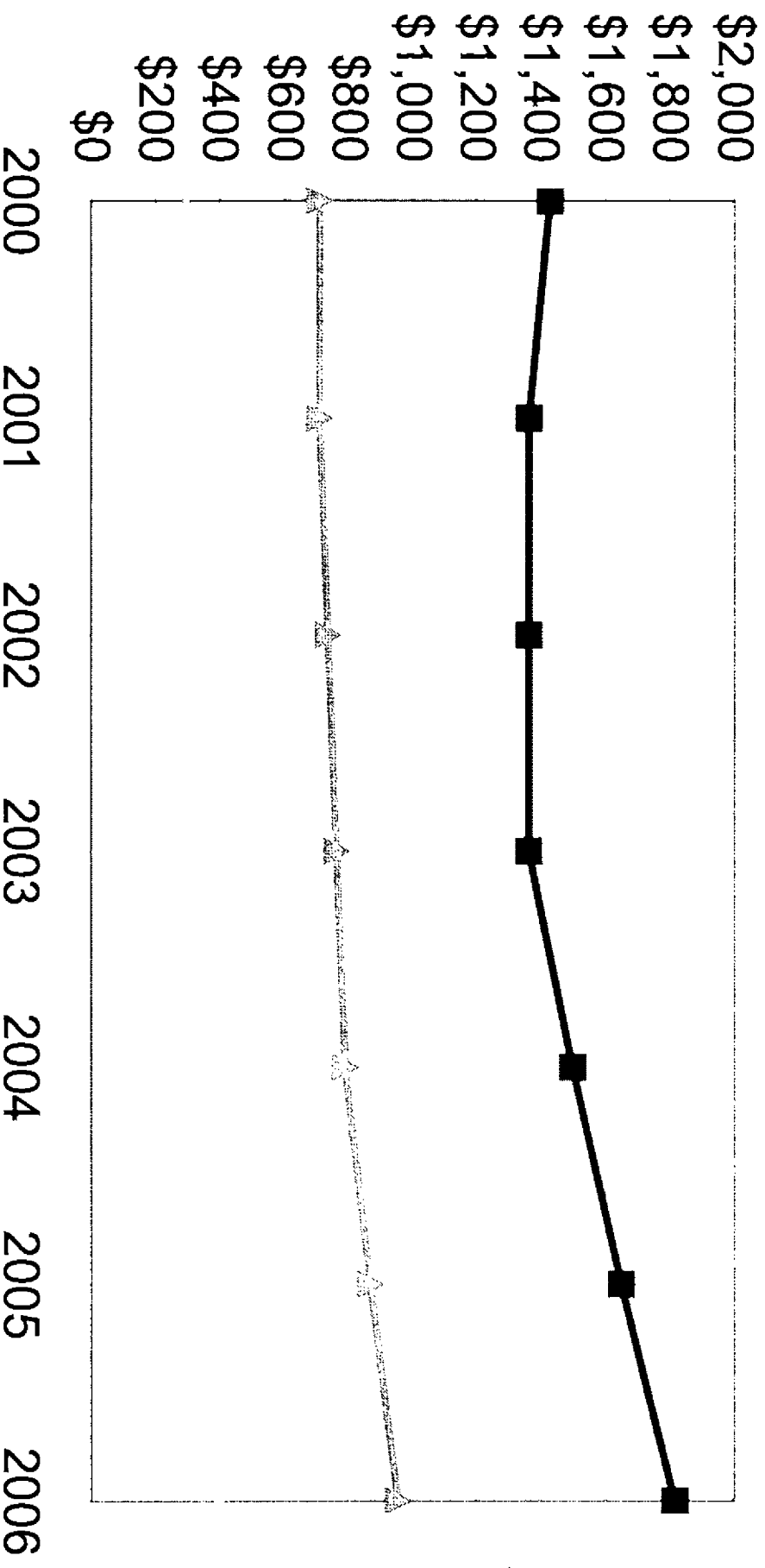
October 4, 2004

Increases in Assessed Values: Three Rockville Residences

(Values adjusted to reflect full value assessments)



Increases in City Property Tax Bills: Three Rockville Residences



County Tax Bill vs. City Tax Bill

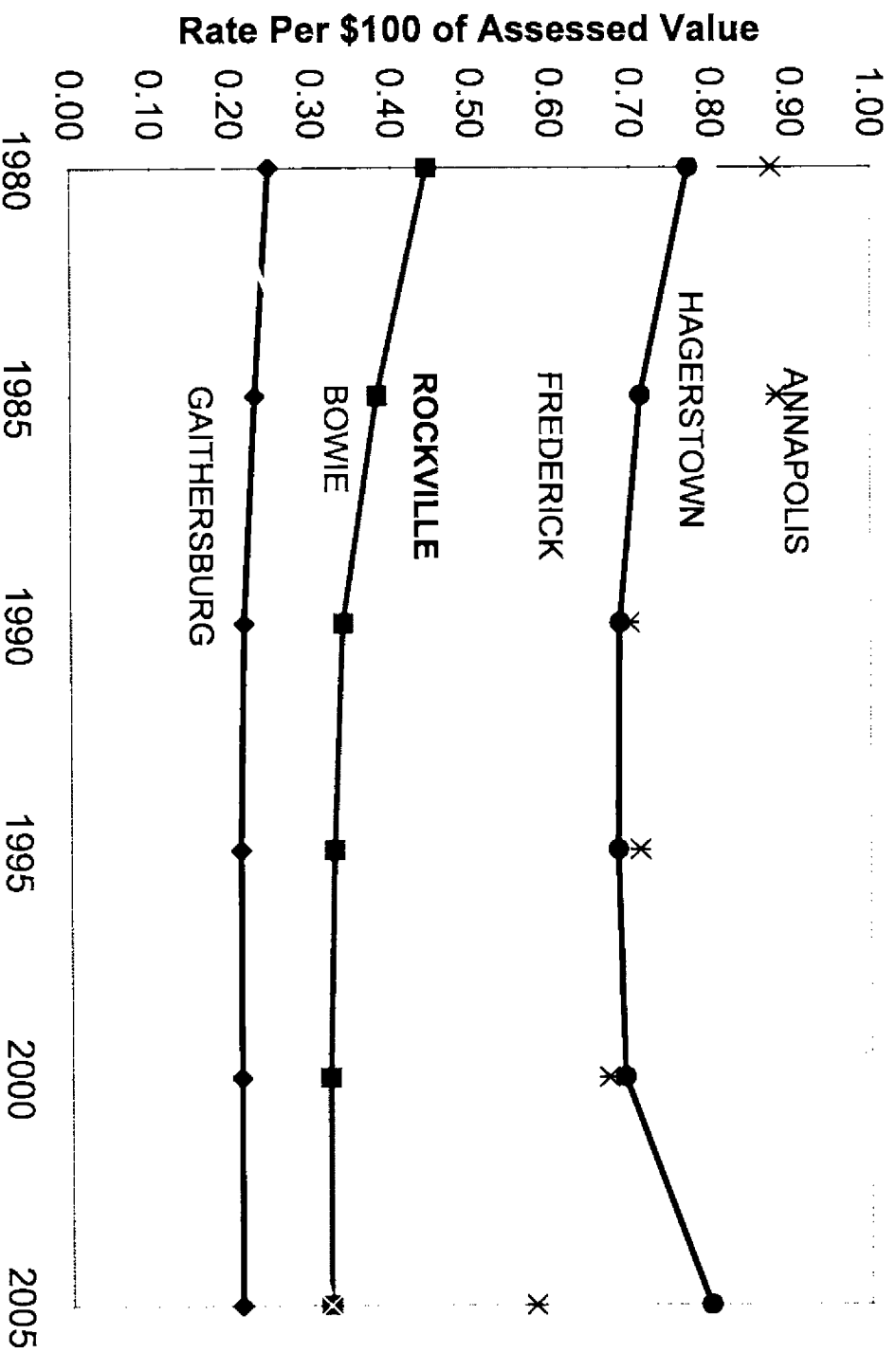
Gen. County Rate	0.734
State Tax	0.132
Transit Tax	0.044
Fire Dist. Tax	0.123
Parks/Planning	0.080
Recreation	0.025
Storm Drainage	0.003
TOTAL	<u>1.141</u>

Gen. County Rate	0.734
State Tax	0.132
Transit Tax	0.044
Fire Dist. Tax	0.123
City Tax	0.322
TOTAL	<u>1.355</u>

DIFFERENCE: 0.214

Tax Rate Trends, 1980-2005

(Rates Adjusted to Reflect Full Value Assessments)



Comparison of Effective Property Tax Rates, 1980-2005

Annapolis:	Down 34%
Rockville:	Down 28%
Bowie:	Down 18%
Gaithersburg:	Down 15%
Frederick:	Down 14%
Hagerstown:	Up 3%

Changing the Tax Rate: Impact on Tax Bills

- A change of one cent means \$10 for every \$100,000 of assessed value, or \$30 for a home assessed at \$300,000
- A change of ten percent means \$32.20 for every \$100,000 of assessed value, or just under \$100 for a home assessed at \$300,000

Changing the Tax Rate: Impact on Resources

- In FY 2006, every penny on the real property tax rate should yield roughly \$850,000 in General Fund revenue.

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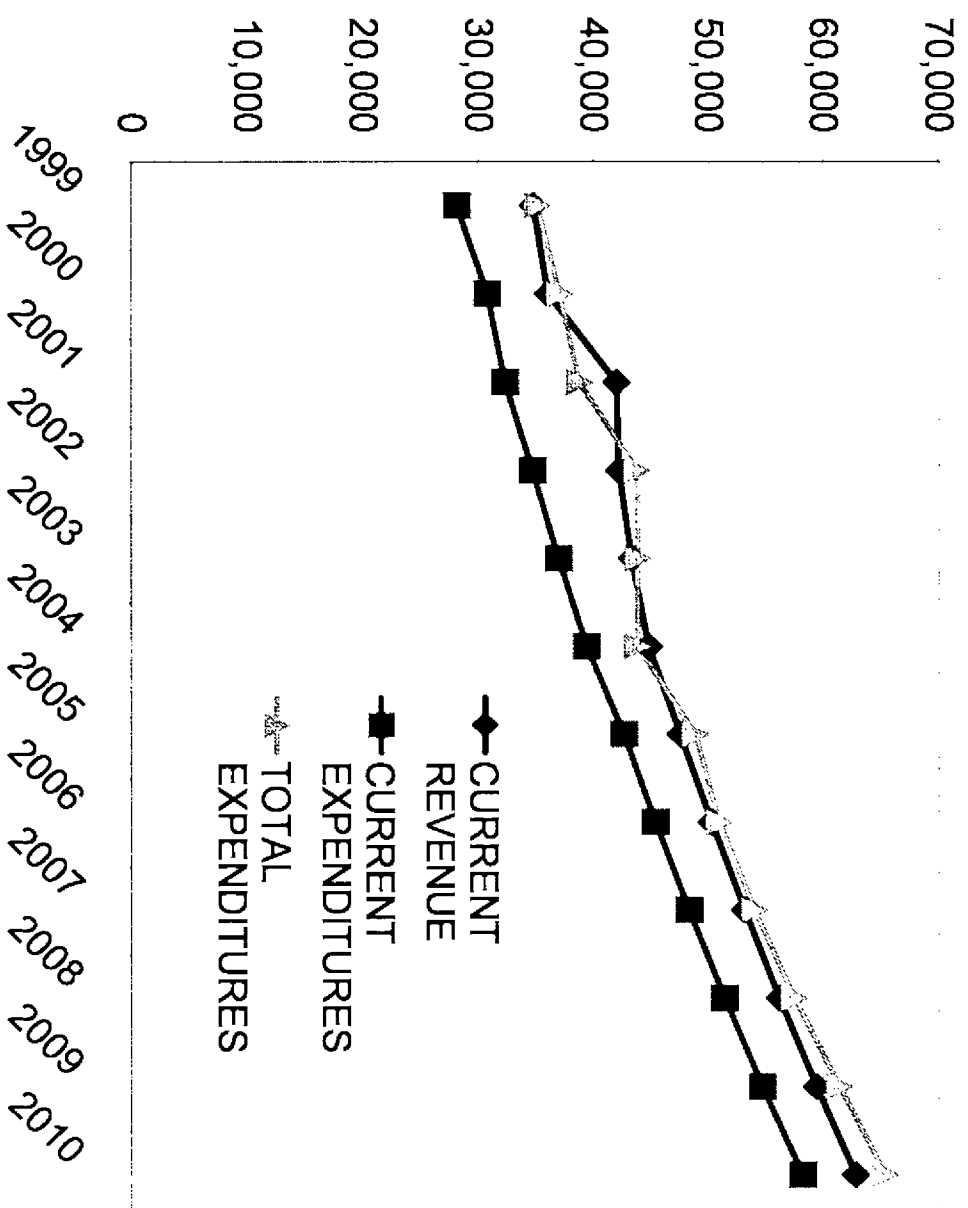
- A ten percent change in the tax rate would have a \$2.7 million impact on the General Fund.

General Fund Overview

- Over the last five years, growth in spending on current needs has slightly outpaced growth in current revenue.
- Most of the city's revenue growth is the result of increasing property tax receipts.
- Expenditure growth is mainly attributable to increased personnel costs, primarily COLAs, merit increases, and benefit costs.

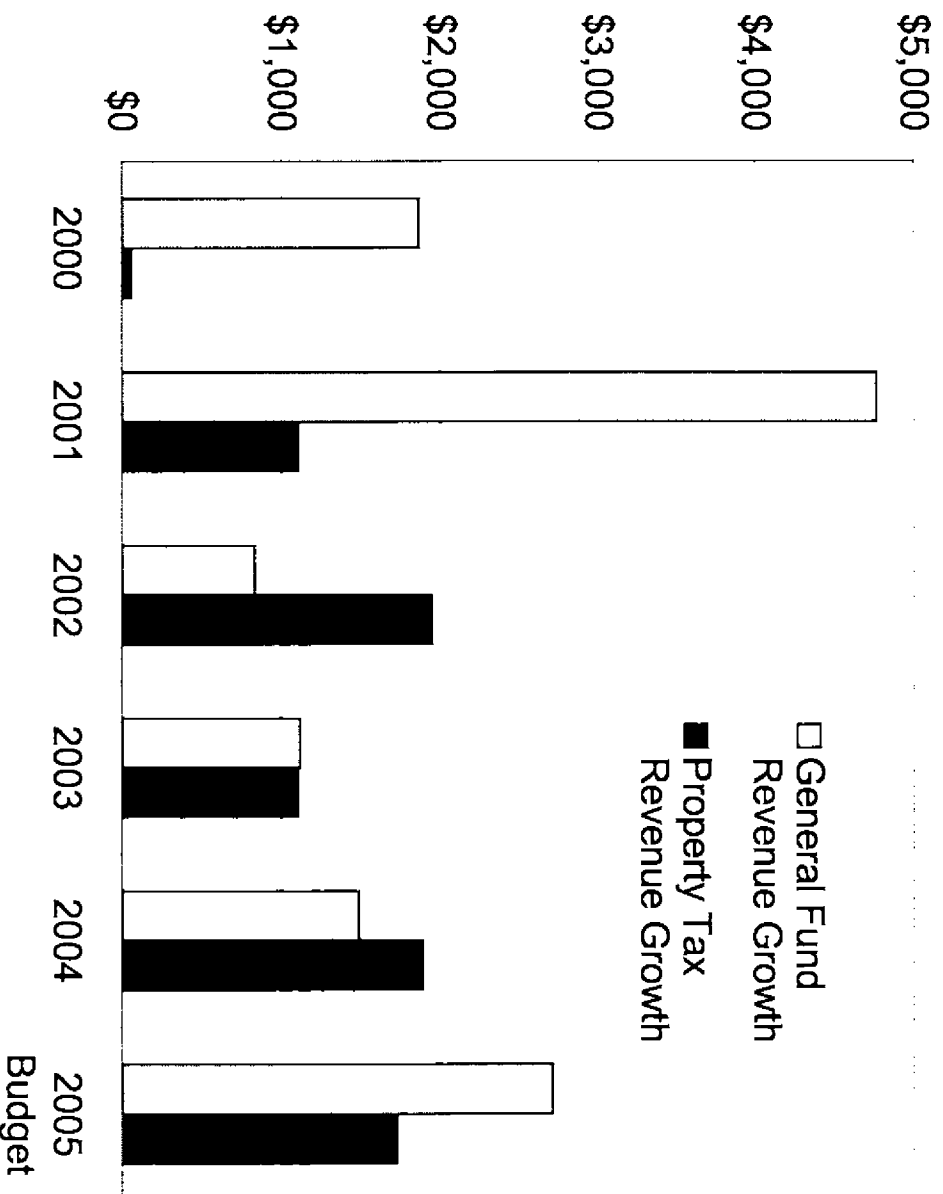
Revenue and Expenditure Trends, FY 1999-FY2010

(Dollars in Thousands)



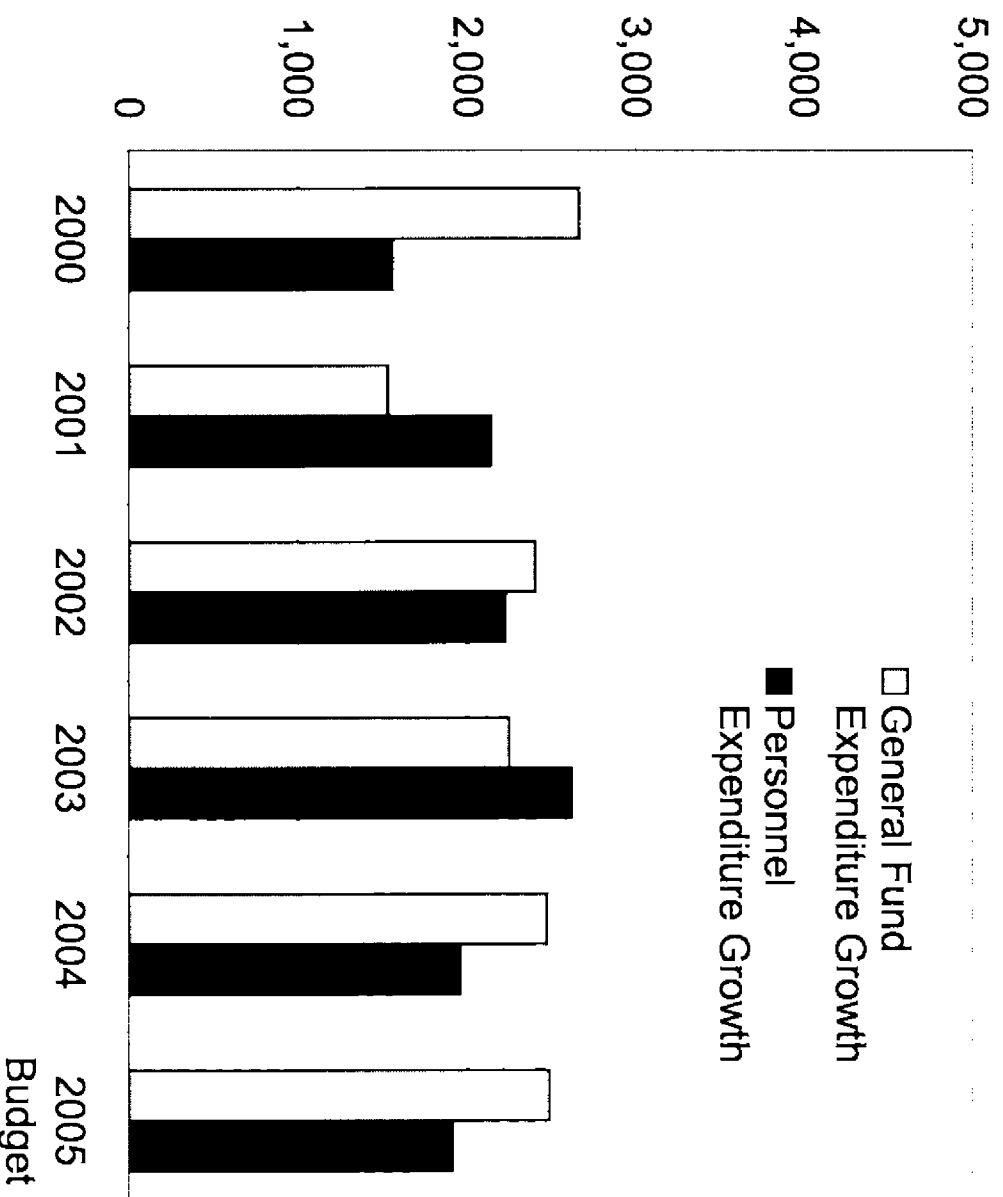
General Fund Revenue Growth From Property Tax Receipts

(Dollars in Thousands)



General Fund Expenditure Growth From Personnel Costs

(Dollars in Thousands)



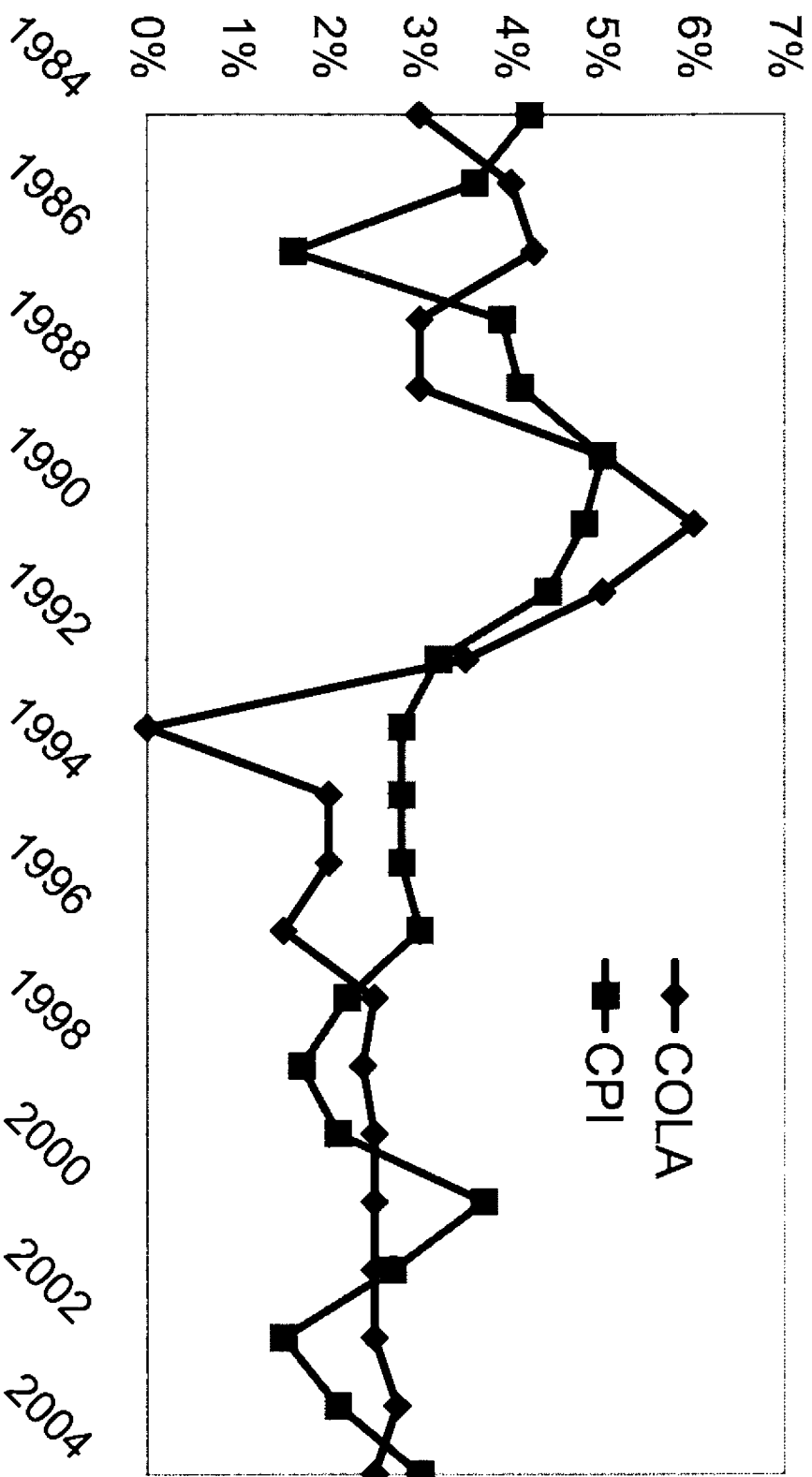
Eroding Support From State & County, FY 2005

- State cut in Highway User Revenue distribution, \$400,000 (compared to FY03)
- County energy tax hike, \$80,000
- County charge for property tax collection, \$21,000.
- County's elimination of subsidy for Council of Governments membership, \$16,000

Comparison of COLA and CPI

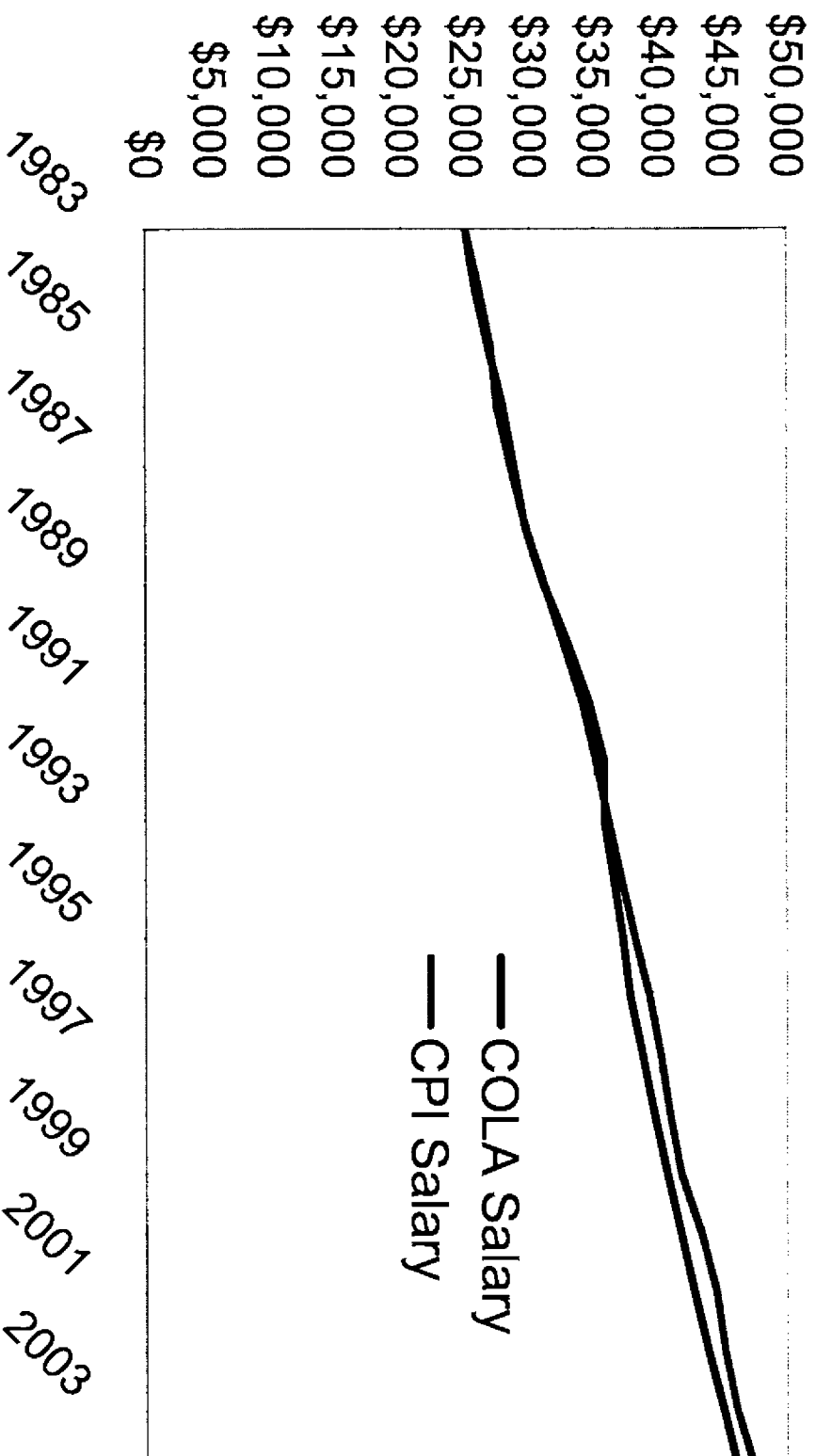
- Since 1984, there are ten years in which COLA increases have been less than the change to the CPI. There are also ten years in which the CPI changes have been greater than the COLA.
- If one compares salary increases over the last 20 years using the COLA and the CPI, the ending 2004 salaries are not far off, but the COLA salary is lower by \$1300.

Percent Change in COLA vs. CPI FY1984 – FY2004



Note: CPI is Consumer Price Index for urban consumers nationwide, as reported by the Bureau of Labor Statistics. COLA is Cost of Living Allowance for Administrative Scale employees.

Increase in \$25,000 Salary: COLA vs. CPI

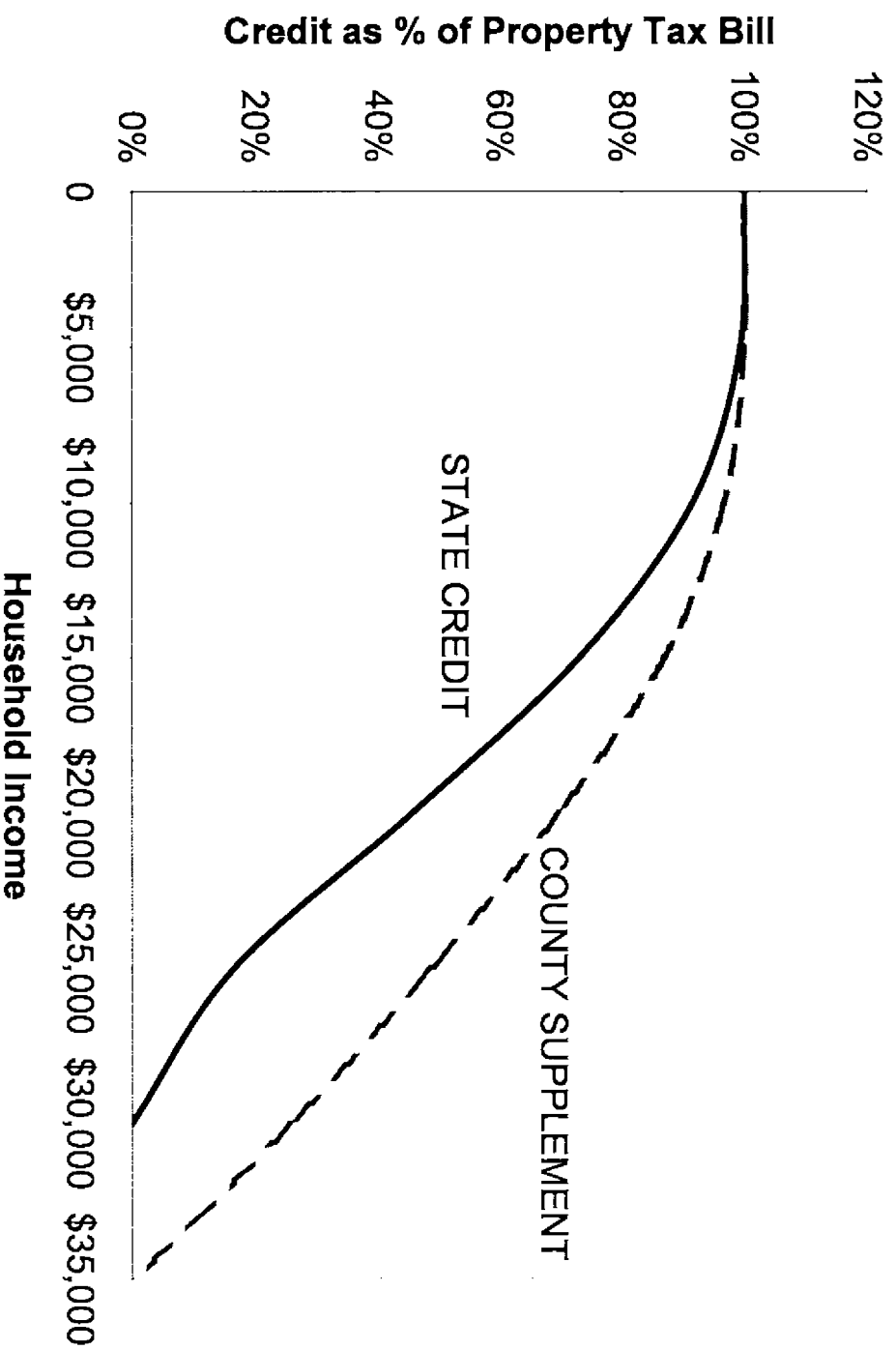


Note: CPI is Consumer Price Index for urban consumers nationwide, as reported by the Bureau of Labor Statistics. COLA is Cost of Living Allowance for Administrative Scale employees.

Homeowner's (Circuit Breaker) Property Tax Credit

- State funded credit against the property tax bill if it exceeds a certain percentage of household gross income.
- Protects low income homeowners from the full impact of rising property assessments.
- Applies to the first \$150,000 of assessed value. Households with incomes above \$30,000 are generally ineligible.

Homeowner's Tax Credit on \$150,000 of Assessed Value





City of Rockville
MEMORANDUM

September 28, 2004

TO: Mayor and Council

FROM: Donna J. Boxer, Director of Finance *DB*
Dominic Del Pozzo, Budget Officer *DDP*
Susan J. Lander, Revenue Supervisor *SL*

VIA: Catherine Tuck Parrish, Acting City Manager

SUBJECT: Financial Report on FY 2004 Operations

The purpose of this memorandum is to report on operations for FY 2004 for the City's major governmental and enterprise funds. The information presented here is substantially complete, although the auditors could make adjustments over the next several weeks.

This memo is organized as follows:

- I. Overview
- II. General Fund Revenues
- III. Assessed Value of Real Property
- IV. General Fund Expenditures
- V. Contingency History
- VI. Capital Projects Fund
- VII. Enterprise Fund Revenues and Expenses
- VIII. Major Variances and Issues to Monitor in FY 2005

The charts in this memo reflect an end-of-year comparison of the adopted budget, revised budget and actual results for FY 2004. Year-end information for FY 2003 and the adopted budget numbers for FY 2005 are also provided for comparative purposes.

I. OVERVIEW OF GENERAL FUND RESULTS

The major variances by revenue source are described in detail in Section II below. Actual revenue of \$44.9 million exceeds the revised budget by approximately \$664,000. Section IV outlines expenditures by category and identifies the major variances. Expenditures of \$43.9 million are approximately \$1.9 million or 4.1% below the budgeted amount. One of the City's fiscal targets is to maintain the undesignated fund balance in the General Fund at or above 15% of annual revenue. These funds provide a cushion to allow the City to continue to provide services even under the most negative of unanticipated circumstances. The chart below shows the fund balance at the end of FY 2004 based on the revenue and expenditures currently recorded. **The bulk of the additional amount available in fund balance can be used for CIP or other one-time expenditures in FY 2005.**

General Fund Undesignated Fund Balance

	FY 2004 Budgeted Amount	FY 2004 Revised Budget Amount	FY 2004 Actual	Percent of Revenue
Balance, 6/30/03	9,192,059	9,192,059	9,192,059	20.48%
Plus: revenue	44,932,013	44,219,704	44,883,796	
Plus: designated/reserved fund balance	250,700	472,694	472,694	
Less: expenditures	45,182,713	45,739,898	43,882,661	
Less: planned contribution to the CIP – FY 2004	800,000	N/A	N/A	
Less: designated/reserved for FY 2005	N/A	N/A	1,535,275	
Plus: other changes to Undesignated fund balance	N/A	N/A	129,181	
Estimated Balance, 6/30/04	8,392,059	8,144,559	9,259,794	20.63%
Increase (decrease) during FY 2004	(800,000)	(1,047,500)	67,735	
Target fund balance	6,739,802	6,632,956	6,732,569	15%
Variance from target	1,652,257	1,511,603	2,527,225	
Less: planned contribution to the CIP – FY 2005	N/A	N/A	200,000	

II. GENERAL FUND REVENUES

Comparison of General Fund Actual to Budgeted Revenue for the Period Ended June 30, 2004

Source of Revenue	FY 2003 Actual	(1) FY 2004		(2) FY 2004		(3) FY 2005		Notes
		Adopted Budget	Revised Budget	Actual As of 06/04	(2-1) Variance	Adopted Budget	(3-2) Variance	
Property taxes:								
Real property	17,967,353	19,660,500	20,216,000	20,248,076	32,076	21,894,000	1,645,924	(1)
Personal property	3,529,630	3,545,000	3,045,000	3,138,850	93,850	3,220,000	81,150	(1)
Income taxes:	6,281,463	6,345,000	6,345,000	7,019,649	674,649	6,456,175	(563,474)	(2)
Intergovernmental revenue:								
Gas/ vehicle tax	2,564,114	1,789,506	1,789,506	1,991,434	201,928	2,158,695	167,261	(3)
Tax duplication payment	1,482,285	1,258,500	1,258,500	1,259,511	1,011	1,698,450	438,939	(4)
Admission/amusement tax	1,079,393	1,106,500	1,106,500	1,023,395	(83,105)	1,139,912	116,517	(9)
Police protection grants	576,660	592,173	592,173	594,440	2,267	562,075	(32,365)	
Youth services grant	304,127	276,936	279,696	281,819	2,123	283,390	1,571	
Cable franchise fee	371,272	363,441	363,441	486,340	122,899	427,750	(58,590)	(9)
Other	186,319	47,395	65,590	59,784	(5,806)	59,175	(609)	
Licenses and permits:								
Building permits	1,965,181	1,566,000	1,200,000	1,179,738	(20,262)	1,325,000	145,262	(5)
Other	395,499	474,150	474,150	524,340	50,190	486,500	(37,840)	
Charges for services:								
Recreation fees	3,978,703	4,277,171	4,287,171	4,177,376	(109,795)	4,476,744	299,368	(6)
PW permit fees	275,445	374,000	374,000	297,171	(76,829)	350,000	52,829	(5)
Zoning and planning fees	153,556	160,000	160,000	132,608	(27,392)	160,000	27,392	(5)
Other	412,301	481,860	249,860	257,097	7,237	234,400	(22,697)	(5)
Use of money/property:								
Interest income	152,291	250,000	100,000	118,006	18,006	150,000	31,994	(9)
Rental income	116,645	127,922	127,922	114,148	(13,774)	140,900	26,752	(7)
Other revenue:								
Sale of land (includes interest)	15,000	-	-	-	-	-	-	
Red Light Camera	147,881	645,600	377,400	256,817	(120,583)	600,000	343,183	(8)
Admin. charges to other funds	1,231,384	1,293,327	1,293,327	1,293,327	-	1,382,127	88,800	
Other	207,873	297,032	514,468	429,870	(84,598)	396,206	(33,664)	
Total Revenue**	<u>43,394,375</u>	<u>44,932,013</u>	<u>44,219,704</u>	<u>44,883,796</u>	<u>664,092</u>	<u>47,601,499</u>	<u>2,717,703</u>	

** Total Revenue does not include the budget amounts for Appropriated Fund Balance. These amounts are: FY 2003 Actual \$0; FY 2004 Adopted Budget 250,700; FY 2004 Revised Budget \$1,520,194; and FY 2005 Adopted Budget \$1,334,546.

Notes to Revenue Schedule:

- 1) Property taxes: The April budget amendment increased real property taxes by \$555,500, but personal property tax billings were adjusted downward by \$500,000 due to lack of business investment and the rapid depreciation of property that businesses presently own. Actual results were slightly higher than the revised estimates.
- 2) Income taxes: Revenue from income taxes was almost \$675,000 above the amount budgeted; \$179,000 of this amount was the result of a one-time change by the State of Maryland. Because of its volatility, revenue from this source must be closely monitored. The amount budgeted for FY 2005 is less than the FY 2004 actual by approximately \$560,000.
- 3) Gas and vehicle tax: Actual gas and vehicle tax payments exceeded the State's estimate by \$109,000.
- 4) Tax duplication payment: The tax duplication payment for FY 2005 is higher than the FY 2004 amount by almost \$440,000, which reflects the County's higher street maintenance costs for the winter of FY 2003, the year on which this payment is based.
- 5) Growth related fees: Revenue from building permits, fire review and safety fees, public works permits, and zoning fees is highly dependent on the amount of growth. Because new units in FY 2004 were considerably lower than the amount estimated, revenue from these sources was below the amount originally budgeted; budget amendments during the year reduced expected permit and fee revenue, as this trend became obvious. The FY 2005 budgeted amount will be reviewed in light of the most current growth projections.
- 6) Recreation fees: Net revenue from recreation fees was \$110,000 below the \$4.3 million budget. The major negative differences were for the camps program and special events. In both instances, expenditures were also kept lower as a partial offset. The decrease in special events revenue reflects the changes to this program as the result of the redevelopment of Town Center. The swim center had higher than budgeted revenue. A budget to actual cost recovery report will be provided.
- 7) Rental income: The FY 2005 budget will be amended to reflect the final decision on the disposition of the King Farm homestead property. The property is being held vacant pending this decision.
- 8) Red light camera revenue: The red light camera program began in the latter half of FY 2003. As the result of a variety of factors, including an FY 2004 mid-year change to a new vendor by all the participating jurisdictions, revenue from this program was considerably below the anticipated amount. The program will be carefully monitored during FY 2005; all program revenue is used to cover contractual program expenses or transferred to the CIP for traffic and pedestrian improvements.

- 9) Other revenue: The FY 2005 budget for cable franchise fees and admission and amusement taxes will be reviewed in light of FY 2004 actual amounts. Interest income revenue will be reviewed in light of current interest rates and the short-term cash needs of the Town Center projects.

III. ASSESSED VALUE OF REAL PROPERTY

	Assumptions in FY 2004 Budget	Assessed Value As of 06/04	Variance
End of prior fiscal year	6,262,347,918	6,339,248,143	76,900,225
New property-beg of year	98,329,475	50,930,790	(47,398,685)
New property-3/4 year	98,329,475	54,917,029	(43,412,446)
New property-1/2 year	98,329,475	96,903,322	(1,426,153)
New property-1/4 year	<u>98,329,475</u>	<u>80,406,457</u>	<u>(17,923,018)</u>
Sub-Total	6,655,665,818	6,622,405,741	(33,260,077)
Timing, appeals or other reductions	(393,317,900)	(101,697,222)	291,620,678
Total	6,262,347,918	6,520,708,519	258,360,601
Associated tax revenue	19,660,641	20,123,738	463,097
Modified Budget		20,216,000	
Actual, as of 9/28/04		20,248,076	

New property is added to the tax rolls at the beginning of the tax year and the conclusion of the first, second and third quarters of the year. Taxes added mid-year are billed on a pro-rata basis. Only a portion of the anticipated new property was included in budgeted revenue. Based on information provided by the State Department of Assessments and Taxation and Montgomery County, the assessed value of real property at the end of FY 2004 increased by approximately \$599 million or 10% above the prior year amount, from \$5.9 billion to \$6.5 billion. Approximately 43% of this amount, or \$259 million, is estimated to be the result of the addition of new property to the City's tax base; the remaining \$340 million is estimated to be the result of the reassessment of existing property. Successful appeals by property owners or correction of errors had reduced the assessed value by \$101.7 million.

IV. GENERAL FUND EXPENDITURES

Comparison of General Fund Actual to Budgeted Expenditures for the Period Ended June 30, 2004

			(1)	(2)		(3)		
		FY 2004	FY 2004	FY 2004		FY 2005		
Expenditure	FY 2003	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	
Category	Actual	Budget	Budget	As of 06/04	Variance	Budget	Variance	Notes
Personnel								
Salary	22,729,970	23,901,510	23,935,302	23,787,454	(147,848)	25,161,476	1,374,022	(1)
Fringe benefits	4,915,085	5,609,352	5,658,129	5,549,650	(108,479)	6,355,329	805,679	
Sub-total	27,645,055	29,510,862	29,593,431	29,337,104	(256,327)	31,516,805	2,179,701	
Contractual Services								
Professional services	1,566,181	1,687,859	1,831,501	1,456,180	(375,321)	2,720,872	1,264,692	(2)
Office expenses	835,396	816,987	841,257	865,062	23,805	790,504	(74,558)	
Employment & training	526,846	570,352	557,681	469,092	(88,589)	557,907	88,815	
Maintenance & repair	1,815,842	2,163,119	2,021,088	1,910,012	(111,076)	2,167,365	257,353	
Service provision	498,534	582,297	562,757	499,440	(63,317)	575,603	76,163	
Insurance	124,802	169,650	169,650	169,650	-	212,936	43,286	
Leases	68,929	75,155	75,155	81,121	5,966	80,695	(426)	
Sub-total	5,436,530	6,065,419	6,059,089	5,450,557	(608,532)	7,105,882	1,655,325	
Commodities								
Utility costs	1,130,698	1,104,217	1,249,123	1,242,729	(6,394)	1,448,502	205,773	(3)
Supplies	2,171,894	2,054,873	2,248,173	2,096,467	(151,706)	1,987,402	(109,065)	
Contingency	-	978,396	533,665	-	(533,665)	432,303	432,303	(4)
Sub-total	3,302,592	4,137,486	4,030,961	3,339,196	(691,765)	3,868,207	529,011	
Capital Outlays								
Land & building improvement	-	-	-	-	-	-	-	
Equipment	431,029	562,035	659,525	377,202	(282,323)	501,562	124,360	(5)
Sub-total	431,029	562,035	659,525	377,202	(282,323)	501,562	124,360	
Non-operating expenditures								
Disposal of scrap	11,017	5,000	5,000	4,954	(46)	7,500	2,546	
Community assistance	3,420	23,420	3,290	2,714	(576)	14,862	12,148	
Outside agencies	817,197	811,537	932,127	914,459	(17,668)	865,806	(48,653)	
Sub-total	831,634	839,957	940,417	922,127	(18,290)	888,168	(33,959)	
Total Expenditures	37,646,840	41,115,759	41,283,423	39,426,186	(1,857,237)	43,880,624	4,454,438	
Transfers to other funds								
Debt Service Fund	3,384,064	3,598,662	3,120,683	3,120,683	-	3,833,133	712,450	
Capital Projects Fund	3,061,248	431,500	1,299,000	1,299,000	-	1,185,496	(113,504)	
Other funds	36,792	36,792	36,792	36,792	-	36,792	0	
Sub-total	6,482,104	4,066,954	4,456,475	4,456,475	-	5,055,421	598,946	
Total Expenditures and Transfers	44,128,944	45,182,713	45,739,898	43,882,661	(1,857,237)	48,936,045	5,053,384	

Notes to Expenditure Schedule:

Actual expenditures for the year are below the amount budgeted by \$1.86 million. Of this amount, almost \$485,000 is designated for expenditure in FY 2005 and approximately \$200,000 represents unspent funds that are currently under contract and will be re-appropriated in FY 2005. The major line item variances are indicated below.

- 1) Personnel: The detailed monitoring of salary costs that was begun during FY 2003 has continued during FY 2004. Costs as of the fiscal year-end are in accordance with expectations and are \$256,000 less than the amount budgeted. The increase to the original budget includes additional overtime costs as the result of Hurricane Isabel. The budget for retirement costs for FY 2005 has been reviewed in light of the actuarial report that was recently received; the initial estimate is that retirement costs in the General Fund may be under budget by approximately \$65,000. This issue will be addressed in the first budget amendment.
- 2) Professional services: Legal fees in the General Fund were less than budgeted by slightly more than \$120,000. Consultant funds were unspent in the Department of the City Manager by \$58,000, in CPDS by approximately \$116,000, and in Special Events (Recreation and Parks Department) by \$50,000.
- 3) Utility costs: The increase in Utility Costs reflects the drastic increases in cost for all utilities: electricity, heating fuel, and gasoline and oil. The FY 2005 budget was increased at adoption by \$359,000 in anticipation of higher electricity unit costs as well as an increase in the County's energy tax. *As noted at that time, actual costs in FY 2005 will be at least \$70,000 more than the revised amount.* This issue will also be addressed in the first budget amendment.
- 4) Contingency: The total contingency funds remaining at year-end were \$533,665. Section V below details the use of the contingency during the fiscal year and the amount of one-time funds to be carried forward for designated projects in FY 2005.
- 5) Information and Technology Special Projects: IT Special Projects had unspent funds at year-end of almost \$225,000; these funds will be carried over to FY 2005 to complete these projects.

Departments have access to detailed budget to actual information. A list will be prepared for departments and for the City Manager of major line item variances, to assist in their ongoing review of their FY 2005 budgets.

V. CONTINGENCY HISTORY

FY 2004
Contingency History – General Fund
For the Period Ended June 30, 2004

<u>Adopted Budget Contingency Level</u>		\$978,396
One-time Contingency	\$532,996	
Ongoing Contingency	\$445,400	
 <u>Uses of One-time Contingency</u>		
Twinbrook PTA Grant	\$6,000	
Rock. Econ. Dev. Inc relocation	104,000	
Refuse Operations Study	34,900	\$144,900
 <u>Uses of Ongoing Contingency</u>		
Hurricane Isabel expenditures	\$125,158	
Archive costs City Clerk's Office	7,650	
Additional utility costs	14,000	
Overtime and salt for snow removal	<u>153,023</u>	\$299,831
 <u>June 30, 2004 Contingency Level</u>		\$533,665
One-time Contingency	\$388,096	
Ongoing Contingency	\$145,569	
 <u>Designated for Use in FY 2005</u>		
Mayor and Council priorities	\$386,996	

VI. CAPITAL PROJECTS FUND

Expenditures of \$26.7 million were recorded as of the fourth quarter of FY 2004, compared to \$9.7 million for all of the prior fiscal year. The major expenditure of funds was for Town Square redevelopment. Other active projects included traffic calming and pedestrian safety, concrete improvements, and asphalt pavement maintenance. Approximately \$23.8 million of debt was issued to fund these improvements, included \$12.35 million of short-term Bond Anticipation Notes.

VII. ENTERPRISE FUNDS REVENUES AND EXPENSES

Note: Expenses include non-cash outlays such as depreciation

Water Fund Comparison of Actual to Budgeted Revenue and Expenses For the Period Ended June 30, 2004

			(1)	(2)		(3)		
	FY 2003	FY 2004	FY 2004	FY 2004		FY 2005		
	Actual	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	Notes
		Budget	Budget	As of 06/04	Variance	Budget	Variance	
Revenues								
Charges for Services:								
Utility Charges	2,959,874	3,338,014	3,338,014	2,952,304	(385,710)	3,560,860	608,556	(1)
Water Connections	713,262	591,200	591,200	327,587	(263,613)	791,200	463,613	(2)
Sales of Materials	190,115	126,000	126,000	74,734	(51,266)	126,000	51,266	(2)
Interest Income	66,637	54,018	54,018	46,466	(7,552)	21,452	(25,014)	
Miscellaneous Revenues	601	-	-	2,987	2,987	2,987	-	
Transfers Other Funds	<u>330,660</u>	<u>340,580</u>	<u>340,580</u>	<u>340,580</u>	<u>-</u>	<u>411,860</u>	<u>71,280</u>	
Total Revenues	4,261,149	4,449,812	4,449,812	3,744,658	(705,154)	4,914,359	1,169,701	
Expenses								
Personnel	1,787,550	1,967,785	1,957,688	1,926,918	(30,770)	2,030,289	103,371	
Operating	859,000	1,059,202	1,081,224	915,384	(165,840)	1,088,409	173,025	
Capital	160,817	182,000	223,410	184,892	(38,518)	306,221	121,329	
Debt service, transfers and other	<u>1,701,057</u>	<u>1,792,802</u>	<u>1,748,304</u>	<u>1,694,631</u>	<u>(53,673)</u>	<u>1,616,369</u>	<u>(78,262)</u>	
Total Expenses	4,508,424	5,001,789	5,010,626	4,721,825	(288,801)	5,041,288	319,463	
Net Income/Loss	(247,275)	(551,977)	(560,814)	(977,167)	(416,353)	(126,929)	850,238	

Notes to Water Fund Schedule:

- 1) Total revenue for charges to customers is substantially equal to the prior year amount, despite some additional households and a 3.6% rate increase in FY 2004, the result of a 6.8% decrease in water production between the 12-month periods ending 6/30/03 and 6/30/04. This decrease in the amount of water used by Rockville households and businesses will have implications for the FY 2005 budget and the multi-year cash flow.
- 2) Water Connection and Sale of Materials revenues are based on new construction. The receipt of these revenues is dependent on the level of new development; as noted in prior reports, new construction was less than anticipated in FY 2004.

**Sewer Fund Comparison of Actual to Budgeted Revenue and Expenses
For the Period Ended June 30, 2004**

			(1)	(2)		(3)		
	FY 2003	FY 2004	FY 2004	FY 2004		FY 2005		
	Actual	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	Notes
		Budget	Budget	As of 06/04	Variance	Budget	Variance	
Revenues								
Charges for Services:								
Utility Charges	4,913,136	5,467,666	5,467,666	4,967,232	(500,434)	5,718,718	751,486	(1)
Sewer Connections	819,247	645,600	645,600	332,887	(312,713)	864,000	531,113	(2)
Interest Earnings	57,413	57,252	57,252	42,756	(14,496)	34,515	(8,241)	
Miscellaneous Revenues	-	-	-	3,261	3,261	3,261	-	
Total Revenues	5,789,796	6,170,518	6,170,518	5,346,136	(824,382)	6,620,494	1,274,358	
Expenses								
Personnel	781,531	850,966	840,676	821,754	(18,922)	1,029,141	207,387	
Operating	2,154,333	2,825,142	2,748,173	2,219,220	(528,953)	2,494,510	275,290	(3)
Capital	-	-	-	-	-	1,796	1,796	
Debt service, transfers and other	1,531,245	1,504,248	1,591,507	1,602,563	11,056	1,805,463	202,900	(2)
Total Expenses	4,467,109	5,180,356	5,180,356	4,643,537	(536,819)	5,330,910	687,373	
Net Income/Loss	1,322,687	990,162	990,162	702,599	(287,563)	1,289,584	586,985	

Notes to Sewer Fund Schedule:

- 1) Total revenue from utility charges is just above the actual amount for the prior year, despite some additional households and a 3.6% rate increase in FY 2004, *the result of a 6.8% decrease in water production between the 12-month periods ending 6/30/03 and 6/30/04.* This decrease in the amount of water used by Rockville households and businesses will have implications for the FY 2005 budget and the multi-year cash flow.
- 2) Water Connection and Sale of Materials revenues are based on new construction. The receipt of these revenues is dependent on the level of new development; as noted in prior reports, new construction was less than anticipated in FY 2004.
- 3) The operating budget was increased based on information from WSSC concerning future payments for legal settlements. It was not necessary to begin making these payments in FY 2004, and, as a result, operating costs were \$500,000 less than anticipated.

**Refuse Fund Comparison of Actual to Budgeted Revenue and Expenses
For the Period Ended June 30, 2004**

			(1)	(2)		(3)		
	FY 2003	FY 2004	FY 2004	FY 2004		FY 2005		
	Actual	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	Notes
		Budget	Budget	As of 06/04	Variance	Budget	Variance	
Revenues								
Charges for Services:								
Utility Charges	3,603,974	4,058,406	4,058,406	4,128,978	70,572	4,521,382	392,404	
Interest Earnings	9,256	2,746	2,746	4,968	2,222	-	(4,968)	
Miscellaneous Revenues	-	-	-	-	-	-	-	
Other Financing Sources:								
Transfers Other Funds	<u>36,792</u>	<u>36,792</u>	<u>36,792</u>	<u>36,792</u>	-	<u>36,792</u>	-	
Total Revenues	3,650,022	4,097,944	4,097,944	4,170,738	72,794	4,558,174	387,436	
Expenses								
Personnel	2,527,679	2,697,858	2,697,076	2,603,090	(93,986)	2,916,552	313,462	(1)
Operating	1,016,489	1,146,304	1,165,730	1,127,964	(37,766)	1,319,709	191,745	
Capital	10,959	8,000	4,987	4,987	-	13,466	8,479	
Debt service, transfers and other	<u>845,382</u>	<u>933,308</u>	<u>917,677</u>	<u>834,657</u>	<u>(83,020)</u>	<u>883,281</u>	<u>48,624</u>	
Total Expenses	4,400,509	4,785,470	4,785,470	4,570,698	(214,772)	5,133,008	562,310	
Net Income/Loss	(750,487)	(687,526)	(687,526)	(399,960)	287,566	(574,834)	(174,874)	(2)

Notes to Refuse Fund Schedule:

- 1) In the Refuse Operations Division, the regular salaries expense is 89% of the budgeted amount; temporary/seasonal wages expense is 208% of the budgeted amount; and overtime expense is 94% of the budgeted amount. For the Fund as a whole, personnel costs are 96.5% of the amount budgeted. The cash flow is based on 100% of the budgeted amount.
- 2) Net income in the Refuse Fund was \$753,000, or \$66,000 greater than the amount budgeted.

**Parking Fund Comparison of Actual to Budgeted Revenue and Expenses
For the Period Ended June 30, 2004**

			(1)	(2)		(3)		
	FY 2003	FY 2004	FY 2004	FY 2004		FY 2005		
	Actual	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	Notes
		Budget	Budget	As of 06/04	Variance	Budget	Variance	
Revenues								
<i>Meter Revenue</i>								
Meter Fees	96,932	268,818	268,818	122,757	(146,061)	530,700	407,943	
Meter Violations	<u>155,394</u>	<u>435,389</u>	<u>435,389</u>	<u>202,499</u>	<u>(232,890)</u>	<u>459,054</u>	<u>256,555</u>	(1)
<i>Sub-total</i>	252,326	704,207	704,207	325,256	(378,951)	989,754	664,498	
<i>Parking and Other Revenue</i>								
Parking Lot Receipts	44,381	15,000	15,000	43,534	28,534	-	(43,534)	
Parking Violations	126,750	181,662	181,662	142,364	(39,298)	54,900	(87,464)	
Interest Earnings	<u>7,167</u>	<u>6,000</u>	<u>6,000</u>	<u>5,368</u>	<u>(632)</u>	<u>6,000</u>	<u>632</u>	
<i>Sub-total</i>	178,298	202,662	202,662	191,266	(11,396)	60,900	(130,366)	
Total Revenues	430,624	906,869	906,869	516,522	(390,347)	1,050,654	534,132	
Expenses								
<i>Meter-Related Expenses</i>								
Personnel	36,795	72,408	92,018	60,954	(31,064)	78,264	17,310	
Other	<u>7,812</u>	<u>117,463</u>	<u>100,753</u>	<u>8,961</u>	<u>(91,792)</u>	<u>28,581</u>	<u>19,620</u>	
<i>Sub-total</i>	44,607	189,871	192,771	69,915	(122,856)	106,845	36,930	
<i>Parking and Other Expenses</i>								
Personal services	8,848	12,598	12,598	3,146	(9,452)	1,264	(1,882)	
Other	<u>10,405</u>	<u>4,050</u>	<u>69,456</u>	<u>66,885</u>	<u>(2,571)</u>	<u>148,544</u>	<u>81,659</u>	
<i>Sub-total</i>	19,253	16,648	82,054	70,031	(12,023)	149,808	79,777	
Total Expenses	63,860	206,519	274,825	139,946	(134,879)	256,653	116,707	
Net Income/Loss	366,764	700,350	632,044	376,576	(255,468)	794,001	417,425	

Notes to Parking Fund Schedule:

- (1) As noted in the discussions for the parking garages, new meters were installed later than anticipated and revenue per meter for the new meters has been less than originally estimated. The pro formas for the garages reflected the lower revenue expectations.

Stormwater Management Fund
Comparison of Actual to Budgeted Revenue and Expenses
For the Period Ended June 30, 2004

			(1)	(2)		(3)		
	FY 2003	FY 2004	FY 2004	FY 2004		FY 2005		
	Actual	Adopted	Revised	Actual	(2-1)	Adopted	(3-2)	Notes
		Budget	Budget	As of 06/04	Variance	Budget	Variance	
Revenues								
Stormwater Permits	430,686	250,000	250,000	432,044	182,044	200,000	(232,044)	(1)
SWM Waivers	342,388	200,000	200,000	315,710	115,710	200,000	(115,710)	(1)
Interest Earnings	<u>94,249</u>	<u>134,371</u>	<u>134,371</u>	<u>82,604</u>	<u>(51,767)</u>	<u>140,362</u>	<u>57,758</u>	
Total Revenues	867,323	584,371	584,371	830,358	245,987	540,362	(289,996)	
Expenses								
Personnel	345,796	391,560	391,560	382,799	(8,761)	416,968	34,169	
Operating	96,579	272,465	472,465	203,843	(268,622)	432,160	228,317	(2)
Capital	-	-	-	-	-	-	-	
Debt service, transfers and other	<u>240,374</u>	<u>244,249</u>	<u>244,249</u>	<u>244,249</u>	<u>-</u>	<u>248,241</u>	<u>3,992</u>	
Total Expenses	682,749	908,274	1,108,274	830,891	(277,383)	1,097,369	266,478	
Net Income/Loss	184,574	(323,903)	(523,903)	(533)	523,370	(557,007)	(556,474)	

Notes to Stormwater Management Fund Schedule:

- (1) Revenue from stormwater permits and waivers is difficult to estimate because a substantial amount of the revenue comes from a small number of large projects that may be under consideration by a developer for a long period of time, during which the scope or feasibility of the project can change considerably.
- (2) Staff has identified unanticipated costly repairs and maintenance needed to several SWM facilities in the amount of \$200,000. Funding for these expenses appeared in the January budget amendment. Actual expenditures, however, were less than anticipated.

RedGate Golf Course Fund
Comparison of Actual to Budgeted Revenue and Expenses
For the Period Ended June 30, 2004

		(1)	(2)			(3)		
	FY 2004	FY 2004	FY 2004			FY 2005		
	Adopted	Revised	Actual	(1-2)	Adopted	(3-2)		
	Budget	Budget	As of 06/04	Variance	Budget	Variance	Notes	
	FY 2003							
	Actual							
Revenues								
Charges for Services:								
Golf and cart fees	964,377	1,375,208	1,375,208	1,151,069	(224,139)	1,407,540	256,471	(1)
Interest Earnings	528	-	-	5	5	-	(5)	
Transfers Other Funds	-	-	-	-	-	-	-	
Total Revenues	964,905	1,375,208	1,375,208	1,151,074	(224,134)	1,407,540	256,466	
Expenses								
Personnel	717,807	737,659	738,555	709,671	(28,884)	796,932	87,261	
Operating	299,490	343,938	341,968	275,418	(66,550)	350,996	75,578	
Capital	8,583	93,740	93,740	11,993	(81,747)	110,220	98,227	
Debt service, transfers and other	<u>305,457</u>	<u>201,509</u>	<u>215,673</u>	<u>295,099</u>	<u>79,426</u>	<u>198,682</u>	<u>(96,417)</u>	
Total Expenses	1,331,337	1,376,846	1,389,936	1,292,181	(97,755)	1,456,830	164,649	
Net Income/Loss	(366,432)	(1,638)	(14,728)	(141,107)	(126,379)	(49,290)	91,817	(2)

Notes to the RedGate Golf Course Fund Schedule:

- 1) Rounds played for FY 2004 totaled 43,289, compared to the prior fiscal year total of 36,511, an increase of 18.6%. However, this was less than the 52,000 rounds on which the budget was based. The FY 2005 budget is based on 48,000 rounds.
- 2) The fund did show a net loss for the year of \$141,000, but depreciation accounted for \$118,000 of that amount. Therefore, the fund covered all but \$23,000 of its operating expenses.

VIII. Major Variances and Issues to Monitor in FY 2005

The following items have been identified as major variances in FY 2004; implications for FY 2005 have been noted, where appropriate.

General Fund:

- *Fund balance:* As indicated in Section I above, the General Fund balance will be approximately \$2 million higher than required by the City's fiscal policies. At least \$1.25 million of this amount could be used for CIP or other one-time expenditures in FY 2005.
- *Property tax revenue:* Revenue from property taxes is always monitored closely because it constitutes more than half of the revenue to the City's General Fund and a portion of budgeted increases are based on assumptions about development activity. During FY 2004, real property tax revenue was adjusted upward \$555,500, but personal property tax billings were adjusted downward by a similar amount due to lack of business investment and the rapid depreciation of property that businesses presently own.
- *Income tax revenue:* Revenue from income taxes was almost \$675,000 above the amount budgeted; \$179,000 of this amount was the result of a one-time change by the State of Maryland. Because of its volatility, revenue from this source must be closely monitored.
- *Growth related revenue:* Revenue from building permits, fire review and safety fees, public works permits, and zoning fees is highly dependent on the amount of growth. Because new units in FY 2004 were considerably lower than the amount estimated, revenue from these sources was below the amount budgeted.
- *Interest income:* The FY 2004 budget was based on average earnings on investment of 1.9%. Due to lower-than-expected interest rates and the need to keep cash available for Town Center expenditures, this return was not achieved.
- *Red light camera revenue:* The red light camera program began in the latter half of FY 2003. As the result of a variety of factors, including an FY 2004 mid-year change to a new vendor by all the participating jurisdictions, revenue from this program was considerably below the anticipated amount. The program will be carefully monitored during FY 2005; all program revenue is used to cover contractual program expenses or transferred to the CIP for traffic and pedestrian improvements
- *Cost recovery for recreation programs:* Detailed budget to actual information will be provided under separate cover.
- *Expenditures:* Major expenditure variances are detailed in the notes to Section IV. Increases to retirement plan and electricity costs will need to be addressed in the first FY 2005 budget amendment.

Capital Projects Fund:

- Level of expenditures: As indicated in Section VI above, the Town Center project has geometrically increased the City's expenditures from this fund. The extent to which the City will need to advance funds for this project in anticipation of future reimbursements has implications for overall financial management.
- Reimbursement for Police Technology expenditures: The City received a federal grant in the amount of \$1.5 million for the Police Technology project. An issue has been raised concerning the start date for this grant that could jeopardize receipt of almost half of the funds. City staff is in the process of requesting a change to the start date to allow inclusion of the earlier expenditures.

Water and Sewer Funds:

- Level of water production: As indicated in Section VII above, the City's water production in FY 2004 was 6.8% below the amount produced in FY 2003. As a result, revenue is less than anticipated in both the Water and Sewer funds. This outcome has implications for the FY 2005 budget and the multi-year cash flow for these funds. Weather and other factors influence the amount of water produced and billed on an annual basis.
- Sewer Fund costs from WSSC: The City has been notified by WSSC that increased spending at the Blue Plains facility could result in increased City costs in FY 2005. In addition, WSSC is close to settling with DCWASA (the administrator of the Blue Plains treatment plant) on several large outstanding claims; a portion of this cost will be passed on to the City as well. Staff is working to determine the potential amount of these increases.

Refuse Fund:

- *Refuse Fund:* Actual results in the Refuse Fund were slightly better than expected although the outcome is still a net loss for the year. The study of Refuse operations will provide alternatives for service delivery and expenditures in this Fund.

RedGate Golf Course Fund:

- Rounds played for FY 2004 totaled 43,289, compared to the prior fiscal year total of 36,511, an increase of 18.6%. However, this was less than the 52,000 rounds on which the budget was based and revenue will be less than the amount budgeted by approximately \$225,000. The FY 2005 budget is based on 48,000 rounds.
- The fund did show a net loss for the year of \$141,000, but depreciation accounted for \$118,000 of that amount. Therefore, the fund covered all but \$23,000 of its operating expenses.